FDIC State Profile

Spring 2005

Vermont

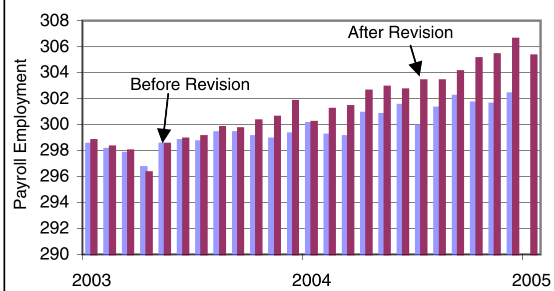
Revised payroll data indicate the economy performed slightly better in Vermont than originally reported.

- The new seasonally adjusted payroll employment data show the recovery from the end of the recession in April 2003 through 2004 has been almost twice as strong as originally reported. Rather than gaining 5,700 jobs over this interval, the increase is now estimated at 10,300 (See Chart 1).[1]
- Other new revisions covering 2004 show that the unemployment rate for Vermont was raised from an average of 3.4 percent for the year to 3.7 percent (See Chart 2). Despite the revision, the unemployment rate was still well below the national average.

The new payroll data reveal that Vermont has recovered all of the jobs lost during the recession.

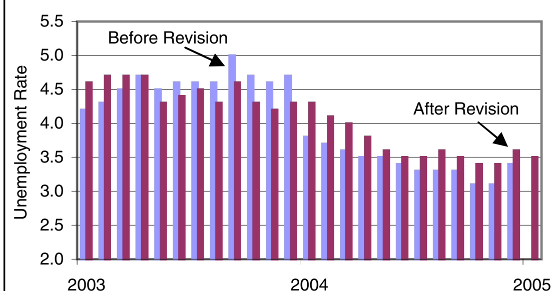
- Vermont suffered the third smallest percentage of job losses in New England during the recession, trailing only Maine and Rhode Island. From the peak in January 2001 through the trough in April 2003, job losses in Vermont totaled 6,500, or just over 2 percent. This is almost identical to the national percentage of job loss—not much worse than the 1.4 percent loss in Rhode Island but far better than the 6.1 percent loss in Massachusetts.
- The revised data indicate Vermont has recovered all of the jobs lost in the recession, as has the nation. Also, like the nation, the service sector provided much of the improvement along with construction jobs. In general, gains within the service sector in Vermont have been widespread.
- Manufacturing in Vermont continues to suffer, although employment recently has stabilized at lower levels. Vermont's small but highly visible furniture industry has been particularly hard hit from both the recession and growing imports. Employment has fallen by more than one-third from a pre-recession average of 3,300 jobs in the year 2000 to 2,100 in 2004.

Chart 1: Employment Gains Larger than Earlier Reported; Growth Continues at Moderate Pace



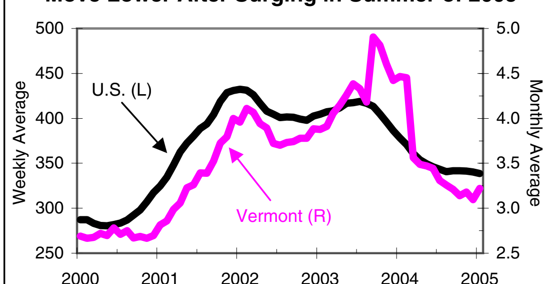
Note: Data seasonally adjusted in thousands.
Source: Bureau of Labor Statistics of Department of Labor, Haver Analytics

Chart 2: Unemployment Rate is Revised Moderately Higher Over the Past Year



Note: Data seasonally adjusted.
Source: Bureau of Labor Statistics of Department of Labor, Haver Analytics

Chart 3: New Unemployment Claims Continue to Move Lower After Surging in Summer of 2003



Note: Data seasonally adjusted in thousands. 6-month moving averages.
Source: Employment and Training Administration of the Department of Labor, Haver Analytics, FDIC

[1] Restated payroll employment data cover the period July 2003 through year-end 2004.

Unemployment insurance claims show improvement following a large increase late in 2003.

- Initial unemployment insurance claims in Vermont continued to decline following a surge in late 2003 (See Chart 3). The 2003 jump was occasioned in part by IBM's decision to downsize its workforce at **Essex Junction**, near **Burlington**.

- The lower levels of initial unemployment insurance claims in Vermont provide an indication that job growth will continue during the course of this year.

Lower noninterest income hampered profitability.

- Community banks, like their larger competitors, have been attempting to diversify sources of income through fee and other service revenue generation. Efforts have produced some favorable results, but noninterest income levels remained relatively flat in 2004 (See Chart 4).

- Gains on loan sales have declined after more significant contributions to noninterest income in 2003. Service charges on deposit accounts are a major source of noninterest income and have been declining in the last year perhaps in response to competitive pressures to maintain deposit share.

Banks are facing increased funding costs.

- Many banks have experienced immediate increases in overall interest expense (See Chart 5). The increase in the federal funds rate since June 2004 contributed to higher funding costs.

- Competition for lower-cost, nonmaturity (demand, savings, and money market deposit accounts) deposits is increasing in the market place as banks position their balance sheets to mitigate the effect of rising interest rates on net interest margins.

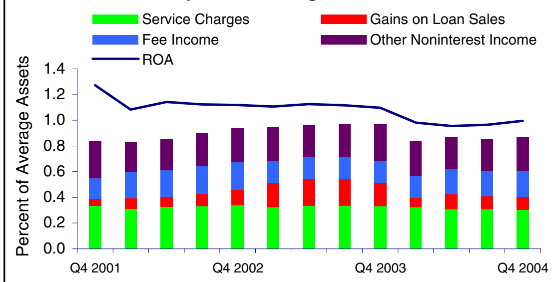
Vermont's banks and thrifts lagged the U.S. average for both branch expansion and deposit growth.

- Branch growth in Vermont was lower than the national average over the 2000 to 2004 period: 2.2 percent compared with 3.9 percent. Seven of the fourteen counties had no change or a reduction in the number of branches over the four-year period (See Map 1). Real deposits, which are adjusted for inflation, grew at a very sluggish pace in Vermont institutions, resulting in a growth rate of real deposits per branch of only 3 percent, compared with the national rate of 20 percent.

- **Chittenden County**, with a quarter of the state's population, saw the number of branches decline by 6 percent in the past four years, while real deposits increased by 12 percent, resulting in an 18 percent increase in real deposits per branch.

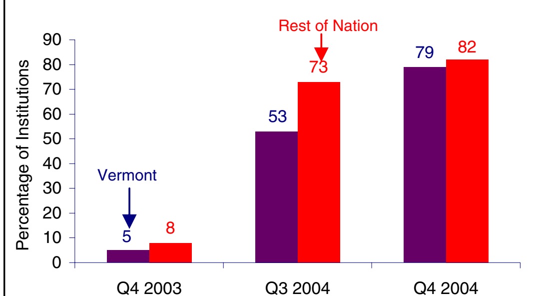
- **Essex County**, with a population of only 6,600, according to Claritas Demographics, doubled its branch count to two, while real deposits remained virtually unchanged. **Franklin County** gained five branches, a 36 percent increase, but with a resulting 24 percent decline in real deposits per branch.

Chart 4: Slow Noninterest Income Growth Hampers Earnings Growth



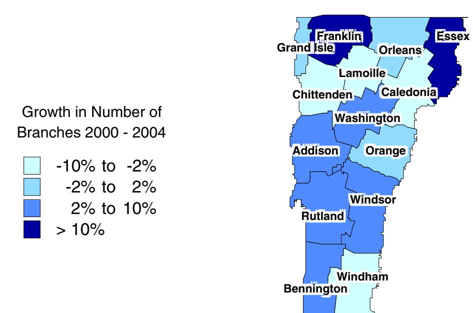
Note: Call filers only with assets <$1 billion. Excludes specialty institutions and de novos.
Source: FDIC

Chart 5: Most Insured Institutions are Reporting Funding Costs Increases



Note: Funding costs during the quarter compared to prior quarter.
Source: FDIC

Map 1: Branch Growth Has Varied Across Vermont



Source: FDIC/OTS Summary of Deposits

Vermont at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.5%	0.9%	-0.8%	-0.1%	2.0%
Manufacturing (12%)	1.1%	-5.3%	-11.4%	-6.4%	2.5%
Other (non-manufacturing) Goods-Producing (6%)	4.6%	8.1%	-3.8%	2.0%	2.5%
Private Service-Producing (65%)	1.4%	1.2%	1.4%	0.5%	1.9%
Government (17%)	1.3%	2.1%	0.8%	2.8%	1.8%
Unemployment Rate (% of labor force)	3.5	4.3	4.3	3.7	2.8

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	5.4%	2.6%	4.2%	6.9%
Single-Family Home Permits	-0.2%	7.1%	22.0%	0.0%	1.8%
Multifamily Building Permits	-15.0%	14.8%	96.9%	-13.3%	-12.8%
Existing Home Sales	N/A	2.5%	14.3%	0.0%	0.0%
Home Price Index	12.3%	11.5%	6.9%	7.9%	8.1%
Bankruptcy Filings per 1000 people (quarterly level)	0.57	0.69	0.72	0.64	0.65

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	19	19	20	23	23
Total Assets (in millions)	7,867	7,453	7,215	8,990	8,622
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	0	0	0	0	0

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.46	2.01	2.25	2.43	2.17
ALLL/Total Loans (median %)	1.19	1.26	1.21	1.33	1.30
ALLL/Noncurrent Loans (median multiple)	2.23	1.88	1.54	1.97	2.11
Net Loan Losses / Total Loans (median %)	0.04	0.09	0.12	0.19	0.15

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	8.75	8.64	9.04	8.97	8.74
Return on Assets (median %)	0.99	0.98	0.97	1.01	1.01
Pretax Return on Assets (median %)	1.32	1.39	1.31	1.42	1.43
Net Interest Margin (median %)	4.31	4.39	4.70	4.64	4.72
Yield on Earning Assets (median %)	5.55	5.75	6.70	7.87	8.33
Cost of Funding Earning Assets (median %)	0.99	1.37	2.17	3.19	3.87
Provisions to Avg. Assets (median %)	0.09	0.11	0.16	0.14	0.16
Noninterest Income to Avg. Assets (median %)	0.72	0.89	0.76	0.63	0.66
Overhead to Avg. Assets (median %)	3.56	3.51	3.50	3.42	3.35

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	68.4	68.0	69.7	69.7	70.1
Noncore Funding to Assets (median %)	12.6	10.6	11.2	11.9	11.5
Long-term Assets to Assets (median %, call filers)	21.3	24.0	24.1	26.1	25.0
Brokered Deposits (number of institutions)	5	2	0	0	0
Brokered Deposits to Assets (median % for those above)	0.6	0.1	0.0	0.0	0.0

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	77.6	66.8	67.6	67.5	75.9
Commercial Real Estate	242.4	203.1	226.1	235.2	212.1
Construction & Development	26.8	19.6	23.7	21.0	16.1
Multifamily Residential Real Estate	13.4	14.6	10.5	14.8	10.1
Nonresidential Real Estate	185.3	170.2	154.0	150.7	163.7
Residential Real Estate	326.1	346.3	356.0	335.5	362.7
Consumer	39.5	42.7	45.1	46.9	61.7
Agriculture	7.1	7.7	6.4	6.0	2.8

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Burlington-South Burlington, VT	9	3,128	< $250 mil.	11 (57.9%)
			$250 mil. to $1 bil.	6 (31.6%)
			$1 bil. to $10 bil.	2 (10.5%)
			> $10 bil.	0 (0%)